



Position on the Arizona Budget

Approved April 2, 2009

CRISIS: An Opportunity to Build a Better Arizona

Forty-two days after taking office, Governor Jan Brewer, the current leader of our State, boldly presented the framework of a five-point budget-reduction plan. During her speech to the Arizona State Legislature she said, "All of us, Republicans and Democrats alike, must set aside our differences in this time of *crisis*. All of us have to make sacrifices, and only by working together can we Build a Better Arizona." She essentially delivered the same message, March 18, 2009, when she spoke to East Valley leaders emphasizing that the State of Arizona is in an economic crisis.

Researching the word "*crisis*" becomes instructive; its origin is from *kir* or *kri* that means, to purify or to cleanse. Dr. Stewart D. Friedman, Practice Professor of Management at the Wharton School recently used a similar instructional thought. He said; "An economic world turned upside down makes it easier to take a fresh look, and this can open the door to making changes that will benefit you and the most important people in your life, now and in the long run".

We agree with Governor Brewer and Dr. Friedman that this crisis requires all who receive state budget appropriations and all representatives of Arizona's economy to come together for the common good. This *crisis* necessitates all involved to put our state's future on a path that works for many years to come by preparing **a reengineered – restructured sustainable multi-year budget** rather than having annual partisan skirmishes and accompanying contention year after year.

A \$3 billion short fall is definitely a crisis; however, this allows all of us, as Governor Brewer suggests, focusing on issues and components that are absolutely essential. Let us take advantage of this crisis to create a better Arizona for years to come. Starting now, let's take the opportunity for all to support and put in motion real structural changes. Let's establish new methods to conduct the budgeting process in our state and allow those of the Executive Branch, the Legislature, key business leaders, educators and citizens to all collaborate in building a better Arizona. There is nothing like a recession to cause us to focus on purifying and cleansing the current issues and challenges of our state.

We understand prior drastic cuts have been instituted and underscore the magnitude of education to the East Valley and the enormous economic engines of ASU and ASU at the Polytechnic campus needing to be maintained.

We understand that the drastic cuts that were made to education at all levels have impacted a key important sector of our East Valley economy -- our K-12, community college and university systems -- in a damaging way. We have special concern about the impacts to the two campuses of ASU in the East Valley. Such cuts undermine our present and threaten our future as a 21st century economy. We believe the Arizona voters will insist on maintaining the educational achievements that we have attained, and would not allow further detrimental cuts. East Valley Partnership has long supported the principle of education as an economic driver in all sectors of Arizona's economy.

We applaud Governor Brewer's 5-point plan for the state's economic recovery. Thought out appropriately, we think this plan has great merit and demonstrates bold leadership. We believe the components of this plan call for bi-partisan solutions that include:

1. Structural Budget Reform:

- Instituting and reengineering structural budget reform that is sustainable for multiple years.
- Increasing the size and instituting formula-driven restrictions of the State's Rainy Day Fund, that should be increased to 15% of the budget and include a seven-year rolling averaging process to remain current.
- Implement restrictions and limitations on fund sweeps. Funds like transportation and economic development must be used as originally intended.
- A commitment to implementing a fair, honest and coordinated revenue estimate process
- We suggest a two-year budget plan, both 2010 and 2011 at the same time. It appears to us that this crisis requires a longer planning horizon.
- Over time, call for each budget sector (i.e. Healthcare/AHCCCS, K-12, Universities, Community Colleges and Prisons) to prepare a reengineered – restructured sustainable multi-year budgets. This should be a new way of doing business and should include “state of the art” strategies implementing new budget preparation methods and financing. The respective sectors of the East Valley Partnership representing these areas commit to providing leadership to achieve this reform.

2. Reform and modernization of Arizona's state tax structure:

- We support the Governor's call for a state tax reduction that would begin in 2012 and progressively build a more business friendly tax code that generates high-wage sustainable jobs and attracts investment capital.
- We strongly support Governor Brewer's “seed corn initiatives”, that is, to maintain education levels required to build and invest in high-wage job growth in industries similar to those developed from Science Foundation Arizona, renewable industries (solar), aerospace and healthcare services industries.
- Develop tools, revenue and tax structure stability for those industries that attract and promote job growth in preferred industries. This should over time move us out of a predominately construction driven economy.

3. Improve Proposition 105 – The Voter Protection Act:

We believe Arizona voters will support proposals to:

- Provide some fiscal flexibility during this extraordinary time of crisis. It would allow for maintaining core services during times of crisis instead of banking funds for future program enhancements.
- Make modest amendments to the 1998 Voter Protection Act allowing some cuts or redirection of funding from certain voter-approved programs during times of crisis.
- This process should require the collaboration of the beneficiaries of these programs.

4. General Fund Spending Cuts:

Recognizing the budget is going to require cooperation from all segments of the state government. We recommend implementing the following policies:

- Aggressively using the Federal Stimulus Funds without increasing recurring budgetary commitments.
- Reductions to general fund budgets approaching \$1Billion while at the same time giving protection to our most valued asset, education programs including, K-12, Community Colleges, and Universities.

5. Temporary Tax Increase:

In this time of crisis, we believe the Arizona voters will agree to increase state revenues by approximately \$1 billion per year when given the opportunity to sustain those portions of the budget they consider most important. We believe voters will agree to impose a constitutional time-limited temporary sales tax increase to bridge the gaps in the budget. We concur that the temporary tax increase should be placed on a special election ballot as soon as practical. We think the Arizona voters understand the crisis.

Governor Brewer stated, “This is a multi-year problem, and these five proposals focus on the long-term. We must stop considering only a 2010 budget deal, and we must start considering a multi-year fix that secures our future and protects our growth”.

Governor Brewer concluded her address to the joint Legislative Session by requesting legislators refrain from sending to her any bills that do not provide a long-term fix to Arizona’s budget crisis in accordance with her 5-point long-term solution to Arizona’s current budget. We join Governor Brewer’s goal of developing a new way of doing business by preparing **a reengineered – restructured sustainable multi-year budget.**